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TAGS: [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [JA](#) [CH](#) [KS](#)
SUBJECT: JAPAN GINGERLY SEEKS NEW ECON TIES WITH CHINA,
SOUTH KOREA

Classified By: Amb. J. Thomas Schieffer. Reason: 1.4 (b, d)

11. (C) Summary: Japan sees little prospect for substantial improvement in its official relations with South Korea in the near term because of the attitudes of the present Korean administration, according to a senior official of the Asia Bureau of Japan's Ministry of Foreign Affairs (MOFA). The official believed talks with Korea on an "economic partnership agreement" would remain suspended until a new government came to power in Seoul. In contrast, relations with China had undergone a surprisingly rapid turnaround. Nevertheless, although Japan was ready to begin negotiations on a trilateral investment agreement with China and South Korea, Japanese interest in a free trade agreement with China remains confined to simply studying the option. An official of MOFA's office in charge of free trade agreement negotiations also noted that, even in the improved political environment, working out a successful three-way investment agreement will still be a challenge for the Japanese. End summary.

No Hope for Relations with South Korea

12. (C) Meeting with ECON Mincouns over lunch January 19, MOFA Asia Bureau Deputy Director General Shiro Sadoshima said that there was no hope of progress in relations with South Korea

under the current Korean administration. Using very colorful language, he said the problem lay not with the Korean Foreign Ministry but with the Blue House and President Roh himself. Nevertheless, Sadoshima pointed to a number of MOFA-sponsored people-to-people exchanges with Korea initiated recently -- particularly youth -- that indicated the level of animosity among the general public in both countries was actually much lower than either the media or politicians portrayed it to be. MOFA looked to support more of these kinds of exchanges utilizing some of the USD 315 million over the next five years for this purpose that Prime Minister Abe had announced during the East Asian Summit meetings in the Philippines.

13. (C) Sadoshima, consequently, was pessimistic about the chances of restarting the "economic partnership agreement" (i.e., FTA) negotiations between Japan and Korea. He acknowledged that there had been some discussion in MOFA to the effect that renewed economic talks might help to improve the atmosphere in the relationship between the two countries. Because the prospects of substantive progress in the near term were dim and the time left to the Roh administration limited, however, there was little interest in Japan on restarting the negotiations only to face the prospect of having to start all over again potentially with a new Korean government.

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TOKYO 00000450 002 OF 004

Interaction with China Dramatically Improved...
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14. (C) Turning to China, Sadoshima indicated that the progress in the relationship with Beijing had been dramatic. He pointed to China's decision on January 18 to lift its ban on imports of Japanese rice as exemplifying the way in which the Chinese position could shift 180 degrees without warning. Japan was now looking to initiate a ministerial-level discussion with China like the U.S. Strategic Economic Dialogue. At present, however, the specific Chinese and Japanese participants, timing, agenda have yet to be decided, Sadoshima said. The main focus for the moment, according to Sadoshima, is preparation for a visit by Chinese Premier Wen Jiabao to Japan in April.

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...But Still Not Ready for an FTA
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15. (C) With respect to the possibility of a trilateral investment treaty among Japan, South Korea, and China, Sadoshima said that the objective was to use the existing Japan-South Korea investment agreement as the basis for negotiation and to extend those terms to China. Despite the announcement from the trilateral meeting in Cebu regarding a study for a full FTA among the three countries, Sadoshima indicated that the Japanese had relatively little interest in the prospect. Japan still has too many concerns over China's protection of investor and intellectual property rights, and remains unwilling to make enough concessions on agriculture to make an FTA feasible, he noted. A China FTA is still at least four to five years down the pike.

Three-way Investment Agreement Challenges
Japanese Diplomacy

¶6. (SBU) Takako Ito, Senior Deputy Director for FTA/EPA Negotiations of MOFA's Economic Partnership Division, told econoff January 25 that Japanese, Korean, and Chinese officials had met six times between May 2005 and December 2006 in preparatory talks on the proposed investment agreement and had reached agreement at the meeting last December to advise their various leaders to announce the launch of formal negotiations. The meeting between Japan Business Federation Chairman Fujio Mitarai and Chinese Premier Wen Jiabao in September, followed by Prime Minister Abe's China trip in October, had given added impetus to finalizing the arrangements to begin formal negotiations.

¶7. (SBU) According to Ito, the Japan-Korea bilateral investment treaty, which went into effect in 2003, is one of Japan's best, having been influenced by the (unsuccessful)

TOKYO 00000450 003 OF 004

negotiations for the OECD Multilateral Agreement on Investment (MAI). Whereas Japan's previous bilateral investment agreements had focused on investment protection, the MAI experience had led to new thinking on possibilities for investment liberalization, many of which had been incorporated into the agreement with Korea, Ito said.

¶8. (C) The 1990 Japan-China investment agreement, Ito noted, was one of Japan's older arrangements. Japanese investors, for example, received most favored nation treatment under the agreement but not national treatment. Japan's hope was that, by teaming with Korea in three-way negotiations, it would be possible to bring the Chinese to agree on key areas such as greater regulatory transparency and intellectual property rights protection. Japan also hoped that the Chinese could be persuaded to accept the existence of an investment agreement as automatic consent for investors to utilize the World Bank's International Center for Settlement of Investment Disputes (ICSID). Currently, Ito said, the Chinese Government insisted on granting written permission to allow ICSID arbitration on a case-by-case basis.

¶9. (C) Establishing such a three-way agreement will not be easy, Ito confessed. The Japanese do not want the trilateral agreement to supersede the bilateral arrangement with Korea, with which they are quite happy. As part of the preparations, the Japanese have been studying the investment chapter of the North American Free Trade Agreement (NAFTA) for clues as to how best to manage a three-way negotiation. Ito indicated that the Japanese had also studied the U.S. model bilateral investment treaty but remained uncomfortable with certain elements of the U.S. model. Notably, the requirement for transparency in the dispute settlement mechanism did not appeal to Japanese and other Asians, who preferred a more private arbitration process, Ito stated.

Comment

¶10. (C) Sadoshima's frustration with the current Korean administration recalled the sentiments expressed by many inside and outside Japan who had been waiting out the tenure of former Japanese Prime Minister Koizumi in anticipation of better relations with Japan's Asian neighbors. The relative improvement of relations with China in particular does appear to have given an opening for some limited initiatives on the social and economic side that have been gestating in the bureaucracies of all three countries for some time. Nevertheless, as Ms. Ito's comments indicate, although a better political atmosphere has allowed these initiatives to emerge, the practical difficulties of bringing them to fruition remain.

TOKYO 00000450 004 OF 004

SCHIEFFER